

**2010**  
**EXECUTIVE PROPOSED BUDGET**

**STRATEGIES FOR CLOSING THE**  
**\$56.4 MILLION GENERAL FUND DEFICIT**

PREPARED BY THE OFFICE OF MANAGEMENT & BUDGET  
SEPTEMBER 28, 2009

## OVERVIEW

For 2010, the General Fund faces a \$56.4 million deficit, caused by the on-going structural imbalance between the growth rates of revenues and expenditures and made worse by the most severe economic instability since the Great Depression. King County's General Fund is already relatively lean following the deficit years of 2002 through 2005 when the county closed a \$137 million budget gap and recent actions to eliminate 2009's \$93 million deficit. In fact, 2010 will mark the second consecutive year where the General Fund budget is actually *smaller* than the previous year's budget. At \$620.9 million, the 2010 Executive Proposed Budget is \$38.8 million less than the 2008 Adopted Budget and \$26 million less than the 2009 Adopted Budget.

In exploring options for closing 2010's \$56.4 million deficit, one quickly realizes that King County is left with some very difficult and painful decisions about which programs to reduce or eliminate. Simply put, there are no easy choices.

In framing the decision-making criteria for balancing the 2010 budget, the Executive seeks to preserve funding to the greatest extent possible for core mandatory services. In addition, the Executive prioritizes the preservation of direct services over administrative overhead costs. The Executive also emphasizes the elimination of programs over 'across the board' reductions, recognizing that the county programs can no longer be effective if faced with reductions on the margins. Finally, the Executive makes use of the tools provides to King County by the state legislature in 2009 – namely the ability to use MIDD revenue to support existing General Fund programs – to mitigate and offset some of the direct service reductions.

The table on the next page highlights the strategies used to close the \$56.4 million General Fund deficit for 2010. Details about these reductions are provided in subsequent pages.

## CROSSWALK

Cumulative Changes to Address Projected 2010 Deficit Based on Final Projected 2010 Deficit		Impact on Deficit	
		Increase to Deficit	Decrease to Deficit
<b>Projected Deficit (dollars in millions)</b>		<b>56.4</b>	
<b>Administrative and Overhead Reductions</b>			
Administrative Service Reductions			4.1
Central Rate Reductions			3.3
<b>Discretionary Program Funding</b>			
Eliminate Parks Funding <sup>1</sup>			2.1
Eliminate Animal Control Subsidy			1.5
Eliminate Human Services Funding <sup>2</sup>			11.4
<b>Funding Shift to MIDD</b>			
MIDD Supplantation for LSJ Programs <sup>3</sup>			7.7
<b>Other Balancing Strategies</b>			
North Highline Annexation Savings			2.9
Employee Flex Benefit Program Change			2.8
Shut Down of Operations			6.5
<b>Technical Adjustments and Other Changes</b>			
PERS Savings			6.4
Other Changes			8.1
<b>Changes to Reserves</b>			
Release of Parks Reserve <sup>1</sup>			2.5
Establish Animal Control Reserve		3.0	
Establish Parks Partnership Reserve		0.5	
Establish Alder Facility Reserve		4.0	
Establish Green River Flood Planning Reserve		1.0	
Establish Retirement Contribution Stabilization Reserve		6.4	
Other Misc. Reserves			12.0
<b>Subtotals</b>		<b>71.3</b>	<b>71.3</b>
<b>Net Projected 2010 Deficit</b>			<b>0.0</b>
<sup>1</sup> - Total General Fund savings from Parks is \$4.6 million, the sum of 2010 operating costs and release of the Parks reserve. <sup>2</sup> - Nearly \$5.0 million of this reduction is mitigated using supplanted MIDD dollars. An additional \$2.7 million is offset by reallocating non-General Fund revenue in the Children and Family Services fund. <sup>3</sup> - The 2010 Executive Proposed Budget relies on \$12.6 million in MIDD supplantation dollars, \$7.7 million to preserve criminal justice services and just under \$5.0 million to mitigate lost General Fund support to human services.			

## **ADMINISTRATIVE AND OVERHEAD REDUCTIONS**

In response to the severe constraints facing the General Fund, as well as virtually every other county fund, the 2010 Executive Proposed Budget assumes \$11.4 million in expenditure reductions and revenue increases for administrative and overhead functions including \$4.1 million in reductions to the General Fund. These efforts underscore the Executive's commitment to seeking administrative efficiencies prior to the elimination of discretionary services and in order to preserve funding for mandatory and direct services to the residents of King County.

The proposed budget assumes deep reductions – totaling \$1.9 million, or 13.6 percent from the status quo budget projections – to the General Fund county executive offices, including the County Executive; the Office of the Executive; the Office of Management and Budget; and the Office of Strategic Planning and Performance Management. The Office of Information Resource Management which is an internal service fund is reduced by 10 percent. These reductions will result in the elimination of 11 FTEs and 5 term-limited temporary positions. In addition, the Executive Fellow program will be eliminated.

The proposed budget is also balanced assuming reductions – 10 percent – to legislative branch agencies that are roughly commensurate with the reductions taken in the executive offices. This will generate \$2.2 million in savings.

The collective impact of these reductions is that central service agencies that provide services to other county agencies under cost recovery models have been able to reduce their proposed 2010 charges to other agencies by \$19.8 million less than originally anticipated. For example, charges to law, safety and justice agencies are reduced by \$3.6 million. The reconfiguring of the employee training program and currently provided by the Human Resources Division (HRD) is an example of a reduction in central service agencies that will result in lower charges for services to county agencies. Under this proposal, HRD will eliminate the Training and Organizational Development program and create a pared down semi-annual supervisory education program in its place. This change lowers HRD's costs by \$690,442.

## **ELIMINATING FUNDING FOR DISCRETIONARY PROGRAMS**

**PARKS:** Relying on financial support from the General Fund, King County maintains and operates 39 local parks (including two outdoor pools) throughout urban unincorporated King County. This funding augments Parks levy dollars, which may only be used to support regional and rural park facilities. The 2009 Adopted Budget assumed the continuation of General Fund support for urban parks through 2011 to allow time for King County to work with cities and community organizations to transfer these assets. Given the magnitude of the General Fund challenges for 2010, the 2010 Executive Proposed Budget accelerates the termination of General Fund support for the 39 urban parks to the end of 2009. As a result, effective January 1, 2010 the parks will be mothballed. The mothballed parks will remain open to public access, but will not be maintained, beyond what is required to ensure public safety. In December 2009, Parks crews will post signs indicating the closure of these facilities, lock gates where possible, and lock and secure restrooms. This will save \$2.1 million in operating costs in 2010 and allow for the release of the \$2.5 million reserve that had been allocated to support parks operating costs for 2011.

King County is making every effort to continue working with community partners to develop viable options for transferring these important assets. To demonstrate this commitment, King County is allocating \$500,000 in one-time money in a reserve to facilitate the transfer of these parks to external entities. In addition, King County will keep open for two months the six park facilities that are located in the southern portion of the North Highline annexation area pending its formal annexation into the City of Burien in March 2010.

Further reductions to the Parks budget due to the substantial reduction in the General Fund transfer include complete elimination of financial support to the King County Fair, the mothballing of the two remaining outdoor pools (Vashon and Cottage Lake), and reducing costs through efficiencies at the King County Aquatic Center.

**ANIMAL CARE AND CONTROL:** The 2010 Executive Proposed Budget eliminates the \$1.5 million General Fund subsidy historically provided to King County Animal Care and Control to offset the shortfall from animal licensing fees in unincorporated King County and its contracting cities. The combination of the financial challenges in the General Fund and the fact that Animal Care and Control is not self-sustaining means that King County is no longer able to continue providing animal care and control services as it has in the past. Animal Care and Control's operational challenges are also exacerbated by the potential flooding of the Green River Valley that may result from the faulty federally-operated Howard Hanson Dam. The animal shelter is located in the flood plain and has been deemed a total loss in the event of a flood. To mitigate the budget shortfall and the risk posed by the Green River flood emergency, King County Animal Care and Control is partnering with its contract cities and community organizations to transition to an alternate, fiscally sustainable business model by June 2010. Reinforcing this commitment, the 2010 Executive Proposed Budget allocates \$3 million in one-time money in a reserve to facilitate the transition of this function.

**HUMAN SERVICES:** In closing the \$56.4 million 2010 deficit, the 2010 Executive Proposed Budget prioritizes mandatory services over discretionary services. In the wake of the \$93 million 2009 deficit, it is no longer possible to make incremental reductions to multiple programs to close the deficit. Instead, the 2010 Executive Proposed Budget reduces entire discretionary programs, including the \$11.4 million of General Fund support to DCHS, in an effort to preserve mandated programs. This decision was difficult; however, the services supported by the General Fund in DCHS are not mandated.

The \$11.4 million in General Funds, which represents less than 3 percent of DCHS funding, had been allocated to support mental health and substance abuse programs, as well as a wide variety of programs in the Children and Family Services (CFS) fund. Even absent the General Fund support, the department's human services agencies will receive \$385.7 million in non-General Fund revenues in 2010 to support a variety of human services. This includes several dedicated funding sources such as the Veterans and Human Services Levy and property tax millage.

The General Fund support to DCHS was allocated among three agencies:

Mental Health	\$1,330,000
Substance Abuse	\$3,240,000
<u>Children and Family Services (CFS)</u>	<u>\$6,810,000</u>
<b>Total Reduction</b>	<b>\$11,380,000</b>

The impact of the loss of General Fund support is mitigated through four steps: First, \$4.9 million of MIDD sales tax revenues will be directed toward Mental Health and Substance Abuse as part of the 30 percent MIDD supplantation strategy. Second, revenues legally dedicated to services provided by DCHS agencies will flow directly to DCHS, rather than through the General Fund transfer. Third, the pass through to Public Health – Seattle & King County from CFS will end. And, fourth, because the pass through to Public Health is discontinued, all non-General Fund expenditures will be dedicated to DCHS. The cumulative impact of these four steps is to offset the General Fund reduction by \$7.7 million.

#### **Reduction Mitigation Plan**

<b>GF Reduction to DCHS</b>	<b>(\$11,380,000)</b>
<b>GF Reduction to DCHS Offset by</b>	
MIDD Supplantation of Mental Health & Substance Abuse	\$4,890,000
Dedicated Revenues	\$540,000
End CFS Pass Through to Public Health	\$1,820,000
<u>CFS Non-GF Expenditure Increase</u>	<u>\$460,000</u>
<b>Offset Total</b>	<b>\$7,710,000</b>
<b>Total Impact to DCHS</b>	<b>(\$3,670,000)</b>

## **MIDD SUPPLANTATION TO PRESERVE CRIMINAL JUSTICE & HUMAN SERVICES PROGRAMS**

The MIDD sales tax is central to the Executive's strategy for balancing the 2010 General Fund budget and preserving – at least on a short-term basis – critical human services and criminal justice programs that would otherwise be in jeopardy of reduction or elimination.

King County initiated the MIDD one-tenth of a cent sales tax in 2007 to fund a range of new and enhanced strategies and programs outlined in a comprehensive Mental Illness and Drug Dependency (MIDD) Action Plan. The 2010 Executive Proposed Budget strives to implement as much of the Action Plan as possible given the pressure on MIDD revenues, including supplantation and a decline in sales tax collections due to the economic downturn.

**SUPPLANTATION AUTHORIZATION:** In recognition of the financial crisis facing all counties in the state, the State Legislature enabled counties to supplant up to 50 percent of the revenues generated by the MIDD sales tax in 2010 to fund existing programs (supplantation), rather than restricting the funds to new programs or program enhancements. The ability to supplant ramps down by 10 percent annually until it is eliminated in 2015. The Executive proposes using only \$12.6 million, or 30 percent, of MIDD revenues in 2010, 2011, and 2012 to supplant current General Fund programs. To supplant more than 30 percent of MIDD revenue would threaten the integrity of the MIDD Action Plan, which relies on an integrated system of services. Limiting MIDD supplantation to 30 percent also provides a three-year sustainable strategy that ensures the county's ability to support its core mental health and chemical dependency services until 2012 and eases the impact of the ramp down as the ability to supplant diminishes. Finally, there are clear legislative restrictions on the types of programs eligible for MIDD funding: they must be therapeutic court programs, mental health programs, or chemical dependency programs. There are no programs beyond the \$12.6 million identified in the 2010 Executive Proposed Budget that fit the legal eligibility requirements.

Programs that will be funded by supplanted MIDD funds form the core of mental health and drug dependency services and programs provided by the county. Many of the MIDD strategies identified in the Action Plan build upon these core services and would be undermined if the county discontinued them. Supplanted MIDD funds support:

<b>Supplantation Programs (MIDD supported programs in 2010)</b>	
Adult Drug Court	\$ 2,691,000
Family Treatment Court	\$ 201,000
Juvenile Drug Court	\$ 179,000
Mental Health Court (includes contribution from DCHS)	\$ 1,218,000
DAJD Mental Health Contracts	\$ 406,000
Jail Health Mental Health Treatment	\$ 3,107,000
DCHS Mental Health & Substance Abuse Programs	\$ 4,806,000
	<b>\$ 12,608,000</b>

**HOW REDUCTIONS WERE MADE:** The decision to supplant General Fund programs using MIDD revenues was not made without first seeking other revenue tools from the State Legislature. MIDD supplantation was the only viable revenue tool provided by the legislature to help counties address the underlying structural deficits that plague all counties. A total of \$8.6 million in programmatic reductions to MIDD strategies have been identified using the following process and criteria:

- Administrative reductions in county agencies were identified first.
- Programs which had not yet begun were delayed, with the exception of the Crisis Diversion Center, which is an essential element of the MIDD Plan.
- Programs will not receive any new or expanded funding in 2010, with the exception of \$2,000,000 in housing capital. Housing was ranked at the top of the prioritization list developed by the MIDD Oversight Committee and stable housing is crucial to the success of all MIDD programs.
- Finally, reductions in individual strategies were made based on an analysis of the impact of reducing service capacity and/or reducing staffing. In each case, reductions were calculated to generate savings without undermining the effectiveness of the strategy.

<b>MIDD Strategies Being Delayed or Reduced</b>	
Community Based Care	\$ (1,935,000)
Programs Targeted to Help Youth	\$ (4,102,000)
Jail and Hospital Diversion Programs	\$ (2,189,000)
Domestic Violence, Sexual Assault, and Drug Diversion	
Court Programs	\$ (360,000)
Transfer from Fund Balance	\$ (4,022,000)
	<b>\$ (12,608,000)</b>

While the delays to some programs and reductions to others are painful and disappointing, they do not represent the whole story of the MIDD Strategies in the 2010 budget. Due to built up fund balance from 2009 and the fact the MIDD sales tax is projected to generate \$43 million in 2010, the 2010 Executive Proposed Budget includes \$41 million in funding for ongoing MIDD strategies beyond the \$12.6 million for programs that are eligible for supplantation.



## **OTHER BALANCING STRATEGIES**

**ANNEXATIONS:** King County is the local service provider for urban unincorporated areas of King County. The cost to the General Fund in 2010 of providing these local services exceeds revenues generated by these areas by \$15.8 million, thereby requiring the diversion of regional revenues to support these local services. As a mechanism for addressing the underlying structural nature of the General Fund deficits, King County has placed a priority in seeking the annexation or incorporation of these areas.

The 2010 Executive Proposed Budget reflects \$2.9 million in net savings to the General Fund as a result of the anticipated March 2, 2010 annexation of the southern portion of the North Highline annexation area into the City of Burien, in keeping with the outcome of the August 2009 primary election.

**EMPLOYEE BENEFITS:** 2010 will be the first year of a new three-year benefits package for King County employees. Changes to the package contain cost growth by shifting a greater portion of cost to employees and their dependents. Specifically, the changes increase out-of-pocket expenses and encourage the use of cost-effective generic drugs. This agreement recognizes the financial difficulties facing the county by reducing projected costs growth by \$37 million over the next three years, while delivering a comprehensive benefit package that ranks among the very best in the nation for both affordability and effectiveness. The total costs shifted or avoided are equivalent to a \$70 per employee per month premium share, or 18 percent of healthcare costs.

The benefits package reflects a commitment by both labor and management that employees must share costs. Health policy experts and researchers have established that simply shifting costs to employees in the form of a premium share does not solve the problem of escalating health care costs. This plan controls overall costs to the county by tying employee cost share to actual utilization (i.e. co-insurance), encouraging employees and their dependents to effectively manage their use of healthcare resources.

**OPERATIONAL SHUTDOWN:** In the face of the severe fiscal challenges across all county funds, the 2010 Executive Proposed Budget includes savings assumptions in an effort to preserve direct services. For 2009, savings were achieved through the implementation of a ten-day building and/or operational closure program, resulting in labor furloughs. The 2010 budget is balanced across all funds assuming that a similar level of savings will be achieved in each agency based on the furlough eligible employees as was adopted for 2009, including 2009 County Council amendments. The specific details of the 2010 plan are still under development, and discussions with labor unions and individual agencies are on-going. Specific plans describing how the 2010 savings will be achieved will be transmitted to the County Council in the coming weeks. To the extent that savings, from labor or other expenses, cannot be fully achieved through temporary and short term building and/or operational closures, the plan will describe additional programmatic reductions and the elimination of additional positions.